

**THE GAZETTE OF INDIA**

**EXTRAORDINARY**

**PART – III – SECTION 4**

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**SECURITIES AND EXCHANGE BOARD OF INDIA**

**NOTIFICATION**

**Mumbai, the 20th June, 2012**

**SECURITIES CONTRACTS (REGULATION) (STOCK EXCHANGES AND CLEARING CORPORATIONS) REGULATIONS, 2012**

**No. LAD-NRO/GN/2012-13/07/13546** -*In exercise of the powers conferred by sections 4, 8A and 31 of the Securities Contracts (Regulation) Act, 1956, read with sections 11 and 30 of the Securities and Exchange Board of India Act, 1992, the Securities and Exchange Board of India hereby makes the following regulations to regulate recognition, ownership and governance in stock exchanges and clearing corporations and matters connected therewith or incidental thereto, namely:—*

**CHAPTER I  
PRELIMINARY**

**Short title and commencement.**

**1.** (1) These regulations may be called the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2012.

(2) They shall come into force on the date of their notification in the Gazette of India.

**Definitions.**

**2.** (1) In these regulations, unless the context otherwise requires, the terms defined herein shall bear the meanings assigned to them below, and their cognate expressions shall be construed accordingly,—

(a) "Act" means the Securities Contracts (Regulation) Act, 1956 (42 of 1956);

(b) "associate" in relation to a person shall include another person:

- (i) who, directly or indirectly, by himself, or in combination with other persons, exercises control over the first person;
- (ii) who holds fifteen per cent. or more shares in the paid up equity capital of the first person;
- (iii) whose director or partner is also a director of the first person or its subsidiary or holding company, or partner of the first person, as the case may be;

- (iv) who is a holding company or a subsidiary company of the first person or a company under the same management as of the first person;
  - (v) who is a relative of the first person;
  - (vi) who is a member of a Hindu Undivided Family wherein the first person is also a member;
- (c) "Board" means the Securities and Exchange Board of India established under the provisions of section 3 of the Securities and Exchange Board of India Act, 1992 (15 of 1992);
- (d) "clearing corporation" means an entity that is established to undertake the activity of clearing and settlement of trades in securities or other instruments or products that are dealt with or traded on a recognized stock exchange and includes a clearing house;
- (e) "clearing member" means a person having clearing and settlement rights in any recognised clearing corporation:
- Provided that any person who, on the date of commencement of these regulations, is acting as clearing member of a clearing house or a clearing corporation shall be deemed to be clearing member, till his request for registration, if any, is refused by the Board or till cessation of his membership with clearing corporation, whichever is earlier;
- (f) "company" shall mean a company as defined in section 3 of the Companies Act, 1956 (1 of 1956);
- (g) "control" shall have the same meaning as assigned to it under clause (e) of sub-regulation (1) of regulation 2 of the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 or any modification thereof;
- (h) "governing board" means the board of directors of a recognised stock exchange or a recognised clearing corporation;
- (i) "key management personnel" means a person serving as head of any department or in such senior executive position that stands higher in hierarchy to the head(s) of department(s) in the recognised stock exchange or the recognised clearing corporation or in any other position as declared so by such stock exchange or clearing corporation;
- (j) "netting" means the determination of net payment or delivery obligations among the clearing members of a recognised clearing corporation by setting off or adjustment of the *inter se* obligations or claims arising out of buying and selling of securities, discontinuation of business, dissolution, winding-up or insolvency or such other circumstances as may be specified in the bye-laws of the clearing corporation;
- (k) "novation" means the act of a clearing corporation interposing itself between both parties of every trade, being the legal counterparty to both;

(l) "persons acting in concert" in the context of acquisition or holding of shares or voting rights or control shall *mutatis mutandis* have the same meaning as assigned to it in clause (q) of sub-regulation (1) of regulation 2 of the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 or any modification thereof;

(m) "public" includes any member or section of the public but does not include any trading member or clearing member or their associates and agents:

Provided that a public sector bank, public financial institution, an insurance company, mutual fund and alternative investment fund in public sector, that has associate(s) as trading members or clearing members, shall be deemed as public for the purposes of these regulations;

(n) "public interest director" means an independent director, representing the interests of investors in securities market and who is not having any association, directly or indirectly, which in the opinion of the Board, is in conflict with his role;

(o) "recognised clearing corporation" means a clearing corporation which is recognised by the Board under section 4 read with section 8A of the Act;

(p) "regulatory department" means a department of a recognised stock exchange or a recognised clearing corporation which is entrusted with regulatory powers and duties and includes such department as may be specified by the Board;

(q) "rules" means the Securities Contracts (Regulations) Rules, 1957;

(r) "shareholder director" means a director who represents the interest of shareholders, and elected or nominated by such shareholders who are not trading members or clearing members, as the case may be, or their associates and agents;

(s) "trading member" means a person having trading rights in any recognised stock exchange and includes a stock broker.

(2) Words and expressions used and not defined in these regulations but defined in the Act, the Companies Act, 1956, the Securities and Exchange Board of India Act, 1992, the Depositories Act, 1996 or any rules or regulations made thereunder shall have the same meanings respectively assigned to them in those Acts, rules or regulations made thereunder or any statutory modification or re-enactment thereto, as the case may be.

## **CHAPTER II**

### **RECOGNITION OF STOCK EXCHANGES AND CLEARING CORPORATIONS**

#### **Obligation to seek recognition.**

3. No person shall conduct, organise or assist in organising any stock exchange or clearing corporation unless he has obtained recognition from the Board in accordance with the Act, rules and these regulations:

Provided that a stock exchange, which has been recognised under the Act as on the date of commencement of these regulations, shall be deemed to have been recognised under these regulations and all the provisions of these regulations as they apply to a recognised stock exchange shall also apply to such stock exchange:

Provided further that an existing clearing house of a recognised stock exchange or any person who clears and settles trades of a recognised stock exchange, as on the date of the commencement of these regulations, may continue to do so for a period of three months from the date of commencement of these regulations or, if he has made an application under regulation 4 for recognition, till disposal of such application.

**Application for recognition.**

4. Subject to compliance with the provisions of Act, rules and these regulations, an application for recognition as a stock exchange shall be submitted to the Board in Form A as prescribed under rule 3 of the rules and an application for recognition as a clearing corporation shall be submitted to Board in Form A as specified in Schedule – I of these regulations.

**Fee for application.**

5. An applicant seeking recognition as a stock exchange shall pay application fee in terms of rule 4 of the rules, and an applicant seeking recognition as a clearing corporation shall also pay application fee as payable by a stock exchange.

**Documents and particulars for application.**

6. (1) An application for recognition as a stock exchange or a clearing corporation, as the case may be, shall be accompanied by copies of memorandum of association, articles of association, bye-laws and other documents as provided in sections 3 and 4 of the Act, rule 5 of the rules and these regulations.

(2) In addition to the documents specified in sub-regulation (1), the application for recognition as a clearing corporation shall be accompanied by the agreement(s) entered into by the applicant with the recognised stock exchange(s) and depositories.

**Consideration of grant of recognition.**

7. (1) The application under regulation 4 shall be governed by the provisions of the Act, rules and these regulations.

(2) An applicant seeking recognition as a stock exchange or clearing corporation shall comply with the following conditions, namely:—

- (a) the applicant is a company limited by shares;
- (b) the applicant is demutualised;
- (c) the applicant, its directors and its shareholders who hold or intend to hold shares, are fit and proper persons as described in regulation 20;
- (d) the applicant satisfies requirements relating to ownership and governance structure specified in these regulations;
- (e) the applicant satisfies network requirements specified in these regulations;
- (f) the applicant satisfies requisite capability including its financial capacity, functional expertise and infrastructure.

*Explanation.*—For the purposes of this sub-regulation, the term "demutualised" means that the ownership and management of the applicant is segregated from the trading rights or clearing rights, as the case may be, in terms of these regulations.

(3) An applicant seeking recognition as a stock exchange shall, in addition to conditions as specified in sub-regulations (1) and (2), comply with the following conditions, namely:—

- (a) the applicant has the necessary infrastructure for orderly execution of trades;
- (b) the applicant has an online screen-based trading system;
- (c) the applicant has an online surveillance capability which monitors positions, prices and volumes in real time so as to ensure market integrity;
- (d) the applicant has adequate infrastructure to list securities for trading on its platform, wherever applicable;
- (e) the applicant has necessary capability to have a nationwide network of trading members and has adequate facility to admit and regulate its members;
- (f) the applicant has made necessary arrangements to establish connectivity with its trading members and clearing corporation;
- (g) the applicant has adequate Investor Protection Fund and Investor Services Fund;
- (h) the applicant has adequate investor grievances redressal mechanism and arbitration mechanism to resolve disputes arising out of trades and its settlement;
- (i) the applicant has the facility to disseminate information about trades, quantities and quotes in real time to at least two information vending networks which are accessible to investors in the country;
- (j) the applicant has adequate systems' capacity supported by a business continuity plan including a disaster recovery site;
- (k) the applicant has in its employment, sufficient number of persons having adequate professional and other relevant experience;
- (l) the business feasibility plan has been appraised by a reputed agency having expertise in securities market; and
- (m) any other conditions as may be specified by the Board.

(4) An applicant seeking recognition as a clearing corporation shall, in addition to conditions as specified in sub-regulations (1) and (2), comply with the following conditions, namely:—

- (a) the applicant has necessary infrastructure to ensure timely clearing and settlement of trades;
- (b) the applicant has adequate risk management mechanism;
- (c) the applicant has a settlement procedure including netting, novation and guarantee for settlement of trades in place, which is in accordance with the manner specified by the Board;
- (d) the applicant has the capacity to establish a fund to guarantee settlement of trades;
- (e) the applicant has necessary capability to have a wide network of clearing members and has adequate facility to admit and regulate its members;
- (f) the applicant has established connectivity with the depositories, clearing banks, stock exchange and clearing members;
- (g) the applicant has adequate systems' capacity for on-line/real time risk management of trades cleared and settled and is supported by a suitable business continuity plan including a disaster recovery site;
- (h) the applicant has in its employment, sufficient number of persons having adequate professional and other relevant experience to the satisfaction of the Board;
- (i) the applicant has the necessary arrangements in place for resolving disputes and redressal of grievances arising out of clearing and settlement of trades;

- (j) the applicant has an agreement with a depository and with a recognised stock exchange in respect of clearing and settlement of the trades;
- (k) the business feasibility plan has been appraised by a reputed agency having expertise in securities market; and
- (l) any other conditions as may be specified by the Board.

(5) The Board may, on being satisfied with the capability of the applicant to comply with the conditions laid down in this regulation, grant an in-principle approval to the applicant which shall be valid for a period of one year:

Provided that the Board may, upon sufficient cause shown by the applicant, extend the validity of in-principle approval for a further period not exceeding six months.

**Power to make inquiries and call for information.**

**8.** The Board may, before granting recognition to a stock exchange or clearing corporation, make inquiries and require such further information or document to be furnished, as it may deem necessary.

**Grant of recognition.**

**9.** (1) The Board may, after considering the application under regulation 4 and on being satisfied that the applicant has complied with the conditions laid down in regulation 7 and is eligible to act as a recognised stock exchange or a recognised clearing corporation, as the case may be, grant recognition to the applicant in terms of section 4 of the Act, in the interest of the securities market.

(2) The recognition granted to a stock exchange under sub-regulation (1) shall be in Form B of the rules.

(3) The recognition granted to a clearing corporation shall be in Form B of Schedule-I of these regulations.

(4) The recognised stock exchange and the recognised clearing corporation shall comply with such other conditions, including those with regard to the nature of securities to be dealt with, as may be imposed by the Board from time to time.

**Period of recognition.**

**10.** (1) The period of recognition granted to a stock exchange shall be as per rule 6 of the rules.

(2) The recognition granted to a clearing corporation, unless granted on a permanent basis, shall be for such period not less than one year as may be specified in the recognition.

**Regulatory fee.**

**11.** (1) Every recognised stock exchange shall pay the regulatory fee in terms of Securities and Exchange Board of India(Regulatory Fee on Stock Exchanges) Regulations, 2006.

(2) Every recognised clearing corporation shall pay the regulatory fee as the Board may specify.

**Renewal of recognition.**

**12.** (1) In addition to rule 7 of the rules, the provisions of these regulations, as they apply for grant of recognition to a stock exchange, shall also apply in relation to an application for renewal of recognition of a recognised stock exchange.

(2) A recognised clearing corporation desirous of renewal of recognition shall make an application to the Board in Form A of Schedule-I of these regulations and such application shall reach the Board atleast three months prior to the date of expiry of the recognition.

(3) The provisions of these regulations, as they apply for grant of recognition to a clearing corporation, shall also apply in relation to an application for renewal of recognition of a recognised clearing corporation.

(4) An applicant seeking renewal of recognition as a stock exchange shall pay fee in terms of rule 7 of the rules, and an applicant seeking renewal of recognition as a clearing corporation shall also pay fee as payable by a stock exchange.

(5) The recognised stock exchange and recognised clearing corporation shall comply with the applicable conditions specified in sub-regulation (3) and sub-regulation (4) of regulation 7, as the case may be, on a continuous basis.

**Withdrawal of recognition.**

**13.** The recognition granted to a stock exchange or a clearing corporation may be withdrawn in the manner provided under section 5 of the Act.

**CHAPTER III****NETWORTH OF STOCK EXCHANGE AND CLEARING CORPORATION****Networth requirements.**

**14.** (1) Every recognised stock exchange shall have a minimum networth of one hundred crore rupees at all times:

Provided that a recognised stock exchange having a lesser networth as on the date of commencement of these regulations shall achieve a minimum networth of one hundred crore rupees within a period of three years from the date of commencement of these regulations.

(2) Every applicant seeking recognition as a clearing corporation under regulation 4 shall have a minimum networth of one hundred crore rupees:

Provided that sub-regulation (2) shall not apply to an applicant which clears and settles trades of a recognised stock exchange on the date of commencement of these regulations.

(3) Every recognised clearing corporation shall achieve a minimum networth of three hundred crore rupees within a period of three years from the date of recognition granted under these regulations:

Provided that the Board may, upon an application made by the recognised clearing corporation, extend the time specified above in the interest of the securities market.

(4) A recognised stock exchange or a recognised clearing corporation shall not distribute profits in any manner to its shareholders until the networth specified under sub-regulations (1) and (3), as the case may be, is achieved.

(5) Every recognised stock exchange or recognised clearing corporation shall submit an audited networth certificate from the statutory auditor on a yearly basis by the thirtieth day of September of every year for the preceding financial year.

*Explanation I.*—For the purposes of this regulation, ‘networth of a stock exchange’ means the aggregate value of paid up equity share capital plus free reserves (excluding statutory funds, benefit funds and reserves created out of revaluation) reduced by the investments in businesses, whether related or unrelated, aggregate value of accumulated losses and deferred expenditure not written off, including miscellaneous expenses not written off.

*Explanation II.*—For the purposes of this regulation, ‘networth of a clearing corporation’ means the aggregate value of its liquid assets calculated in the manner as specified by the Board from time to time.

## **CHAPTER IV OWNERSHIP OF STOCK EXCHANGES AND CLEARING CORPORATIONS**

### **Definitions.**

**15.** For the purposes of this Chapter:

- (a) "banking company" shall have the same meaning as assigned to it in clause (c) of section 5 of the Banking Regulation Act, 1949 (10 of 1949);
- (b) "insurance company" shall have the same meaning as assigned to it in sub-section (8) of section 2 of the Insurance Act, 1938 (4 of 1938);
- (c) "person resident in India" shall have the same meaning as assigned to it in clause (v) of section 2 of the Foreign Exchange Management Act, 1999 (42 of 1999);
- (d) "person resident outside India" shall have the same meaning as assigned to it in clause (w) of section 2 of the Foreign Exchange Management Act, 1999 (42 of 1999).

### **General conditions.**

**16.** (1) Save as otherwise provided in these regulations, the shareholding or voting rights of any person in a recognised stock exchange or a recognised clearing corporation shall not exceed the limits specified in this Chapter at any point of time.

(2) The shareholding as specified in this Chapter shall include any instrument owned or controlled, directly or indirectly, that provides for entitlement to equity or rights over equity at any future date:

Provided that any equity or rights over equity, arising from such instruments in excess of limit of shareholding specified in this Chapter on the date of commencement of these regulations, shall be reduced to the specified limit within a period as may be decided by the Board, which may extend upto three years from the date of such commencement.

### **Shareholding in a recognised stock exchange.**

17. (1) Atleast fifty one per cent. of the paid up equity share capital of a recognised stock exchange shall be held by public.

(2) No person resident in India shall at any time, directly or indirectly, either individually or together with persons acting in concert, acquire or hold more than five per cent. of the paid up equity share capital in a recognised stock exchange:

Provided that,—

- (i) a stock exchange;
- (ii) a depository;
- (iii) a banking company;
- (iv) an insurance company; and
- (v) a public financial institution,

may acquire or hold, either directly or indirectly, either individually or together with persons acting in concert, upto fifteen per cent. of the paid up equity share capital of a recognised stock exchange.

(3) No person resident outside India, directly or indirectly, either individually or together with persons acting in concert, shall acquire or hold more than five per cent. of the paid up equity share capital in a recognised stock exchange.

(4) The combined holding of all persons resident outside India in the paid up equity share capital of a recognised stock exchange shall not exceed, at any time, forty-nine per cent. of its total paid up equity share capital, subject to the following:—

- (a) the combined holding of such persons acquired through the foreign direct investment route shall not exceed twenty six per cent. of the total paid up equity share capital, at any time;
- (b) the combined holding of foreign institutional investors shall not exceed twenty three per cent. of the total paid up equity share capital, at any time;
- (c) no foreign institutional investor shall acquire shares of a recognised stock exchange otherwise than through secondary market.

*Explanation.*—For the purposes of clause (c), the acquisition of shares in a recognised stock exchange through secondary market shall be construed as follows:—

- I. If the recognised stock exchange is not listed, a foreign institutional investor may acquire its shares through transactions outside of a recognised stock exchange provided it is not an initial allotment of shares;
- II. If the recognised stock exchange is listed, the transactions by a foreign institutional investor shall be done through the recognised stock exchange where such shares are listed.

(5) No clearing corporation shall hold any right, stake or interest, of whatsoever nature, in any recognised stock exchange.

**Shareholding in a recognised clearing corporation.**

18.(1) Atleast fifty one per cent. of the paid up equity share capital of a recognised clearing corporation shall be held by one or more recognised stock exchange(s):

Provided that no recognised stock exchange shall, directly or indirectly, either individually or together with persons acting in concert, acquire or hold more than fifteen per cent. of the paid up equity share capital in more than one recognised clearing corporation.

(2) No person resident in India, except a recognised stock exchange as permitted in sub-regulation (1), shall at any time, directly or indirectly, either individually or together with persons acting in concert, acquire or hold more than five per cent. of the paid up equity share capital in a recognised clearing corporation:

Provided that,—

- (i) a depository;
- (ii) a banking company;
- (iii) an insurance company; and
- (iv) a public financial institution,

may acquire or hold, either directly or indirectly, either individually or together with persons acting in concert, upto fifteen per cent. of the paid up equity share capital of a recognised clearing corporation.

(3) No person resident outside India shall, directly or indirectly, either individually or together with persons acting in concert, acquire or hold more than five per cent. of the paid up equity share capital in a recognised clearing corporation.

(4) The combined holding of all persons resident outside India in the paid up equity share capital of a recognised clearing corporation shall not exceed, at any time, forty-nine per cent. of its total paid up equity share capital, subject to the following:—

- (a) the combined holding of such persons acquired through the foreign direct investment route shall not exceed twenty six per cent. of the total paid up equity share capital, at any time;
- (b) the combined holding of foreign institutional investors shall not exceed twenty three per cent. of the total paid up equity share capital, at any time;
- (c) no foreign institutional investor shall acquire shares of a recognised clearing corporation otherwise than through secondary market.

(5) Any person holding equity shares in a recognised clearing corporation in excess of the limits specified in this regulation on the date of commencement of these regulations shall comply with the conditions specified in this regulation within a period of three years from the date of such commencement.

**Eligibility for acquiring or holding shares.**

**19.** (1) No person shall, directly or indirectly, acquire or hold equity shares of a recognised stock exchange or recognised clearing corporation unless he is a fit and proper person.

(2) Any person who, directly or indirectly, either individually or together with persons acting in concert, acquire equity shares such that his shareholding exceeds two per cent. of the paid up equity share capital of a recognised stock exchange or recognised clearing corporation shall seek approval of the Board within fifteen days of the acquisition.

(3) A person eligible to acquire or hold more than five per cent. of the paid up equity share capital under sub-regulation (2) of regulation 17 and sub-regulation (2) of regulation 18 may acquire or hold more than five per cent. of the paid up equity share capital of a recognised

stock exchange or a recognised clearing corporation only if he has obtained prior approval of the Board.

(4) Any person holding more than two per cent. of the paid up equity share capital of the recognised stock exchange or the clearing corporation on the date of commencement of these regulations, shall ensure compliance with this regulation within a period of ninety days from the date of such commencement.

(5) If approval under sub-regulation (2) or (3) is not granted by the Board to any person, such person shall forthwith divest his excess shareholding.

(6) Any person holding more than two per cent. of the paid up equity share capital in a recognised stock exchange or a recognised clearing corporation, as the case may be, shall file a declaration within fifteen days from the end of every financial year to the recognised stock exchange or recognised clearing corporation, as the case may be, that he complies with the fit and proper criteria provided in these regulations.

**Fit and proper criteria.**

**20.** (1) For the purposes of these regulations, a person shall be deemed to be a fit and proper person if—

(a) such person has a general reputation and record of fairness and integrity, including but not limited to—

- (i) financial integrity;
- (ii) good reputation and character; and
- (iii) honesty;

(b) such person has not incurred any of the following disqualifications—

- (i) the person, or any of its whole time directors or managing partners, has been convicted by a court for any offence involving moral turpitude or any economic offence or any offence against the securities laws;
- (ii) an order for winding up has been passed against the person;
- (iii) the person, or any of its whole time directors or managing partners, has been declared insolvent and has not been discharged;
- (iv) an order, restraining, prohibiting or debarring the person, or any of its whole time directors or managing partners, from dealing in securities or from accessing the securities market, has been passed by the Board or any other regulatory authority, and a period of three years from the date of the expiry of the period specified in the order has not elapsed;
- (v) any other order against the person, or any of its whole time directors or managing partners, which has a bearing on the securities market, has been passed by the Board or any other regulatory authority, and a period of three years from the date of the order has not elapsed;
- (vi) the person has been found to be of unsound mind by a court of competent jurisdiction and the finding is in force; and
- (vii) the person is financially not sound.

(2) If any question arises as to whether a person is a fit and proper person, the Board's decision on such question shall be final.

**Disclosure of shareholding.**

21. (1) Without prejudice to the provisions of the Act, rules and these regulations, the recognised stock exchange(s) and the recognised clearing corporation(s) shall disclose to the Board, in the format specified by the Board, their shareholding pattern on a quarterly basis within fifteen days from the end of each quarter, including therein the following:—

- (a) the names of the ten largest shareholders along with the number and percentage of shares held by them;
- (b) the names of the shareholders falling under regulations 17 and 18 who had acquired shares in that quarter.

(2) A recognised stock exchange and a recognised clearing corporation shall monitor and ensure compliance with this Chapter at all times.

**Record keeping.**

22. In addition to the requirements under other laws in force, a recognised stock exchange and recognised clearing corporation shall maintain and preserve all the books, registers, other documents and records relating to the issue or transfer of its securities for a period of not less than ten years.

**CHAPTER V  
GOVERNANCE OF STOCK EXCHANGES AND CLEARING CORPORATIONS**

**Composition of the governing board.**

23. (1) The governing board of every recognised stock exchange and recognised clearing corporation shall include:

- (a) shareholder directors;
- (b) public interest directors; and,
- (c) managing director.

(2) Subject to prior approval of the Board, the chairperson shall be elected by the governing board from amongst the public interest directors.

(3) The number of public interest directors shall not be lesser than the number of shareholder directors in a recognised stock exchange.

(4) The number of public interest directors of a recognised clearing corporation shall not be less than two-third, and shareholder directors shall not exceed one-third, of its governing board strength.

(5) The managing director shall be an ex-officio director on the governing board and shall not be included in either the category of public interest directors or shareholder directors.

(6) Any employee of a recognised stock exchange or recognised clearing corporation may be appointed on the governing board in addition to the managing director, and such director shall be deemed to be a shareholder director.

(7) No trading member or clearing member, or their associates and agents, shall be on the governing board of any recognised stock exchange or recognised clearing corporation.

(8) At least one public interest director shall be present in the meetings of the governing board to constitute the quorum.

(9) No foreign institutional investor shall have any representation in the governing board of a recognised stock exchange or a recognised clearing corporation.

(10) Every recognised stock exchange shall ensure compliance with the provisions of this regulation within three months from the date of commencement of these regulations.

**Conditions of appointment of directors.**

**24.** (1) The appointment and re-appointment of all shareholder directors on the governing board of every recognised stock exchange or recognised clearing corporation shall be with the prior approval of the Board.

(2) The public interest directors on the governing board of the recognised stock exchange(s) and the recognised clearing corporation(s) shall be nominated by the Board.

(3) Public interest directors shall be nominated for a fixed term of three years, or for such extended period, as may be approved by the Board.

(4) If any issue arises as to whether an assignment or position of a public interest director is in conflict with his role, the Board's decision shall be final.

(5) A public interest director may be renominated after a cooling-off period of one year or such period as the Board may deem fit in the interest of the securities market.

(6) Public interest directors shall be paid only sitting fees as specified in the Companies Act, 1956.

**Appointment of managing director.**

**25.** (1) The appointment, renewal of appointment and termination of service of the managing director of a recognised stock exchange or a recognised clearing corporation shall be subject to prior approval of the Board.

(2) Every recognised stock exchange or recognised clearing corporation shall, subject to the guidelines issued by the Board from time to time, determine the qualification, manner of appointment, terms and conditions of appointment and other procedural formalities associated with the selection/ appointment of the managing director.

(3) The appointment of the managing director shall be for a tenure not less than three years and not exceeding five years.

(4) The managing director of a recognised stock exchange or a recognised clearing corporation shall not—

(a) be a shareholder or an associate of a shareholder of a recognised stock exchange or recognised clearing corporation or shareholder of an associate of a recognised stock exchange or recognised clearing corporation, as the case may be;

- (b) be a trading member or a clearing member, or his associate and agent, or shareholder of a trading member or clearing member or shareholder of an associate and agent of a trading member or a clearing member; or
- (c) hold any position concurrently in the subsidiary of a recognised stock exchange or a recognised clearing corporation, or in any other entity associated with a recognised stock exchange or a recognised clearing corporation:

Provided that the managing director of a recognised stock exchange may be appointed on the governing board, but not as managing director, of the subsidiary of a recognised stock exchange or a recognised clearing corporation, as the case may be.

(5) The managing director shall be liable for removal or termination of services by the governing board of the recognised stock exchange or recognised clearing corporation with the prior approval of the Board for failure to give effect to the directions, guidelines and other orders issued by the Board, or the rules, the articles of association, bye-laws and regulations of the recognised stock exchange or the recognised clearing corporation.

(6) The Board may *suo motu* remove or terminate the appointment of the managing director if deemed fit in the interest of securities market:

Provided that no managing director shall be removed unless he has been given a reasonable opportunity of being heard.

#### **Code of Conduct for directors and key management personnel.**

**26.** (1) Every director of a recognised stock exchange and a recognised clearing corporation shall abide by the Code of Conduct specified under Part– A of Schedule– II of these regulations.

(2) Every director and key management personnel of a recognised stock exchange and a recognised clearing corporation shall abide by the Code of Ethics specified under Part– B of Schedule– II of these regulations.

(3) Every director and key management personnel of a recognised stock exchange and a recognised clearing corporation shall be a fit and proper person as described in regulation 20.

(4) The Board may, for any failure by the directors to abide by these regulations or the Code of Conduct or Code of Ethics or in case of any conflict of interest, either upon a reference from the recognised stock exchange or the recognised clearing corporation or *suo motu*, take appropriate action including removal or termination of the appointment of any director, after providing him a reasonable opportunity of being heard.

#### **Compensation and tenure of key management personnel.**

**27.** (1) A recognised stock exchange or a recognised clearing corporation shall constitute a compensation committee comprising a majority of public interest directors and chaired by a public interest director.

(2) The compensation committee shall determine the compensation of key management personnel in terms of a compensation policy.

(3) The compensation policy shall be in accordance with the norms specified by the Board.

(4) The compensation payable to the managing director shall be as approved by the Board and the terms and conditions of the compensation of the managing director shall not be changed without prior approval of the Board.

(5) The compensation given to the key management personnel shall be disclosed in the Report of the recognised stock exchange or recognised clearing corporation under section 217 of the Companies Act, 1956.

(6) The tenure of a key management personnel, other than a director, shall be for a fixed period, as may be decided by the compensation committee.

**Segregation of regulatory departments.**

**28.** The recognised stock exchange and recognised clearing corporation shall segregate its regulatory departments from other departments in the manner specified in Part- C of Schedule – II of these regulations.

**Oversight committees.**

**29.** (1) Every recognised stock exchange shall constitute independent oversight committees of the governing board, each chaired by a public interest director, in order to address the conflicts of interest in respect of–

- (a) member regulation,
- (b) listing functions, and
- (c) trading and surveillance function.

(2) A recognised stock exchange shall follow the minimum listing standards specified by the Board from time to time.

(3) The heads of departments handling the matters referred to in sub-regulation (1) shall report directly to the respective committee and also to the managing director.

(4) Any action of a recognised stock exchange against a head of a regulatory department shall be subject to an appeal to the respective committee specified under sub-regulation (1), within such period as may be determined by the governing board.

(5) The provisions of this regulation shall *mutatis mutandis* apply to a recognised clearing corporation.

**Advisory committee.**

**30.** (1) An advisory committee shall be constituted by the governing board of every recognised stock exchange and recognised clearing corporation to advise the governing board on non-regulatory and operational matters including product design, technology, charges and levies.

(2) The advisory committee of a recognised stock exchange shall comprise its trading members and the advisory committee of a recognised clearing corporation shall comprise its clearing members.

(3) The chairperson of the governing board shall be the head of the advisory committee and the managing director shall be a permanent invitee to every meeting of the advisory committee.

(4) The advisory committee shall meet at least four times a year with a maximum gap of three months between two meetings.

(5) The recommendations of the advisory committee shall be placed in the ensuing meeting of the governing board of the recognised stock exchange or the recognised clearing corporation for consideration and appropriate decision of the governing board, and such recommendations along with the decision of the governing board on the same, shall be disclosed on their respective websites.

(6) Trading members and clearing members shall not be part of any other committee of the recognised stock exchange or the recognised clearing corporation, as the case may be.

**Risk management committee of a clearing corporation.**

**31.** (1) Every recognised clearing corporation shall constitute a risk management committee, comprising its public interest directors and independent external experts, which shall report to the governing board.

(2) The risk management committee shall formulate a detailed risk management policy which shall be approved by the governing board.

(3) The head of the risk management department shall be responsible for implementation of the risk management policy and he shall report to the risk management committee and to the managing director of the recognised clearing corporation.

(4) The risk management committee shall monitor implementation of the risk management policy and keep the Board and the governing board informed about its implementation and deviation, if any.

**Appointment of compliance officer.**

**32.** (1) Every recognised stock exchange and recognised clearing corporation shall appoint a compliance officer who shall be responsible for monitoring the compliance of the Act, the Companies Act, 1956, the Securities and Exchange Board of India Act, 1992, rules, regulations, or directions issued thereunder and for the redressal of investors' grievances.

(2) The compliance officer shall, immediately and independently, report to the Board any non-compliance of any provision stated in sub-regulation (1) observed by him.

**Transfer of profits.**

**33.** Every recognised stock exchange shall credit twenty five per cent. of its profits every year to the Fund as specified in regulation 39, of the recognised clearing corporation(s) which clears and settles trades executed on that stock exchange.

**Transfer of penalties.**

**34.** Penalties levied by recognised stock exchange or recognised clearing corporation shall be credited to its Investor Protection Fund or the Fund as specified in regulation 39, as the case may be.

**Disclosure and corporate governance norms.**

35. The disclosure requirements and corporate governance norms as specified for listed companies shall *mutatis mutandis* apply to a recognised stock exchange and a recognised clearing corporation.

**CHAPTER VI  
GENERAL OBLIGATIONS**

**Clearing and settlement of trades.**

36. Every recognised stock exchange shall, with effect from the date specified by the Board in this behalf, use the services of recognised clearing corporation(s) for clearing and settlement of its trades.

**Agreement between stock exchange and clearing corporation.**

37. (1) Subject to provisions of sub-regulation (2), a recognised stock exchange shall avail the service of a recognised clearing corporation pursuant to an agreement in writing between them stipulating their rights and obligations, the conditions for admission of securities for clearing and settlement, risk management measures, charges for clearing and settlement and other incidental and consequential matters.

(2) The recognised stock exchange shall extend its arbitration mechanism for settlement of disputes or claims arising out of clearing and settlement of trades executed on such stock exchange.

**Admission of securities for clearing and settlement.**

38. A recognised clearing corporation shall seek approval of the Board before extending its services to any segment of a recognised stock exchange and before admitting any securities for clearing and settlement.

**Fund to guarantee settlement of trades.**

39. (1) Every recognised clearing corporation shall establish and maintain a Fund by whatever name called, for each segment, to guarantee the settlement of trades executed in respective segment of a recognised stock exchange.

(2) The Settlement Guarantee Fund or the Trade Guarantee Fund of an existing recognised stock exchange shall be transferred to the recognised clearing corporation to which the clearing and settlement functions of the stock exchange are transferred.

(3) Till such time the Fund is transferred under sub-regulation (2), it shall be utilized only for the purposes of meeting settlement obligations as specified by the Board and as per the bye-laws of the recognised stock exchange.

(4) An existing clearing corporation shall continue to utilize its Settlement Guarantee Fund or Trade Guarantee Fund after its recognition under these regulations.

(5) In the event of a clearing member failing to honour his settlement obligations, the Fund shall be utilized to complete the settlement.

(6) The corpus of the Fund shall be adequate to meet the settlement obligations arising on account of failure of clearing member(s).

(7) The sufficiency of the corpus of the Fund shall be tested by way of periodic stress tests, in the manner specified by the Board.

(8) The contribution and utilization of the Fund shall be in accordance with the norms specified by the Board.

**Utilization of profits and investments.**

**40.** The utilization of profits and investments by recognised clearing corporations shall be in accordance with the norms specified by the Board.

**Equal, fair and transparent access.**

**41.** (1) The recognised clearing corporation shall lay down a transparent policy framework for ensuring that there is no discrimination while rendering clearing and settlement services in settlement of trades on shareholder stock exchange(s) and on non-shareholder stock exchange(s).

(2) The recognised clearing corporation and recognised stock exchange shall ensure equal, unrestricted, transparent and fair access to all persons without any bias towards its associates and related entities.

(3) The recognised stock exchange and recognised clearing corporation shall not engage in activities that are unrelated or not incidental to its activity as a stock exchange or clearing corporation, as the case may be, except through a separate legal entity and as permitted by the Board.

**Maintenance of books of accounts and records.**

**42.** (1) Every recognised stock exchange shall maintain and preserve the books of account and documents as per rule 14 of the rules.

(2) Subject to the provisions of any other law for the time being in force, every recognised clearing corporation shall maintain and preserve the following books of account and documents for a minimum period of ten years, namely:—

(a) Minute books of the meetings of:

(i) governing board;

(ii) any committees of the governing board;

(b) Record of clearing members showing their full names, addresses and details of bank and depository accounts for settlement purposes;

(c) Transaction records;

(d) Record of security deposits;

(e) Margin deposits book;

(f) Client margin collection details;

(g) Ledgers;

(h) Journals;

(i) Cash book;

(j) Bank account statement;

(k) Such other books of accounts and documents as may be specified by the Board from time to time.

**Submission of annual financial statements and returns.**

**43.** (1) Every recognised stock exchange and recognised clearing corporation shall furnish to the Board its annual financial statements and returns as per rule 17 and 17A of the rules.

(2) The records as per sub-regulation (1) with respect to preceding financial year shall be furnished to the Board by the thirtieth of September of every year.

**Bye-laws, rules, etc. of stock exchanges and clearing corporation.**

**44.** (1) A recognised stock exchange and recognised clearing corporation shall, with the previous approval of the Board, make bye-laws for the regulation of contracts and clearing and settlement, as the case may be, as per section 9 of the Act and these regulations.

(2) No memorandum of association, articles of association or any other constitution document, in so far as they relate to matters specified in section 3 of the Act or under these regulations and bye- laws of a recognised stock exchange or a recognised clearing corporation, shall be amended except with prior approval of the Board.

**CHAPTER VII  
LISTING OF SECURITIES**

**Listing.**

**45.** (1) Subject to the provisions of applicable laws in force, a recognised stock exchange may apply for listing of its securities on any recognised stock exchange, other than itself and its associated stock exchange, if,—

- (a) it is compliant with the provisions of these regulations particularly those relating to ownership and governance;
- (b) it has completed three years of continuous trading operations immediately preceding the date of application of listing; and
- (c) it has obtained approval of the Board.

(2) The Board may specify such conditions as it may deem fit in the interest of the securities market including those in relation to transfer of shares held by any person.

(3) A recognised stock exchange shall not list any securities of its associates.

(4) The securities of a recognised clearing corporation shall not be listed on any stock exchange.

**Dematerialization.**

**46.** Securities of a recognised stock exchange and a recognised clearing corporation shall be in dematerialised form.

## CHAPTER VIII MISCELLANEOUS

### **Power to call for information.**

47. The Board may from time to time call for any information, documents or records from the recognised stock exchange or the recognised clearing corporation, or their governing board or any shareholder thereof.

### **Power of inspection.**

48. (1) The Board may at any time undertake inspection, conduct inquiries and audit of any recognised stock exchange or recognised clearing corporation, any associate of such exchange or clearing corporation, any shareholder of such stock exchange or clearing corporation or any associate and agent of such shareholder.

(2) Where an inspection under sub-regulation (1) is undertaken by the Board, such recognised stock exchange or recognised clearing corporation or shareholder or associate and every manager, director, managing director, chairperson or officer and other employee of such recognised stock exchange, recognised clearing corporation, shareholder or associate shall co-operate with the Board.

### **Directions by the Board.**

49. Without prejudice to exercise of its powers under the provisions of the Act or the Securities and Exchange Board of India Act, 1992 and rules and regulations made thereunder, the Board may, either *suo motu* or on receipt of any information or during pendency of any inspection, inquiry or investigation or on completion thereof, in the interest of public or trade or investors or the securities market, issue such directions as it deems fit, including but not limited to any or all of the following:—

- (a) directing a person holding equity shares or rights over equity shares in a recognised stock exchange or recognised clearing corporation in contravention of these regulations to divest his holding, in such manner as may be specified in the direction;
- (b) directing transfer of any proceeds or securities to the Investor Protection Fund of a recognised stock exchange or Settlement Guarantee Fund of a recognised clearing corporation;
- (c) debarring any recognised stock exchange or recognised clearing corporation, any shareholder of such recognised stock exchange or recognised clearing corporation, or any associate and agent of such shareholder, or any transferee of shares from such shareholder, directors and key management personnel of recognised stock exchange and recognised clearing corporation from accessing the securities market or dealing in securities for such period as may be determined by the Board.

### **Power to remove difficulties.**

50. In order to remove any difficulties in the interpretation or application of the provisions of these regulations, the Board shall have the power to issue directions through guidance notes or circulars.

### **Power to specify procedures, etc. and issue clarifications.**

51. For the purposes of implementation of these regulations and matters incidental thereto, the Board may specify norms, procedures, processes, manners or guidelines as specified in

these regulations, by way of circulars to recognised stock exchange(s) and recognised clearing corporation(s).

**Repeal and savings.**

**52.** (1) On and from the commencement of these regulations, the Securities Contracts (Regulation) (Manner of Increasing and Maintaining Public Shareholding in Recognized Stock Exchanges) Regulations, 2006, shall stand repealed.

(2) Notwithstanding such repeal, anything done or any action taken or purported to have been taken or contemplated under the repealed regulations before the commencement of these regulations shall be deemed to have been done or taken or commenced or contemplated under the corresponding provisions of these regulations.

(3) After the repeal of the regulations referred to in sub-regulation (1), any reference thereto in any regulation, guideline, circular or direction issued by the Board shall be deemed to be a reference to the relevant provisions of these regulations.

**SCHEDULE - I**

**FORM A**

[See regulations 4 and 12]

**Application for recognition/renewal of recognition of a clearing corporation under regulation 4/regulation 12 of the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2012**

To

.....  
.....

Subject: Application for recognition or renewal of recognition of a clearing corporation under regulation 4/regulation 12 of the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2012.

Sir,

1. We/I on behalf of ..... (name and address of clearing corporation ) being a clearing corporation hereby apply for recognition/renewal of recognition for the purposes of the said Act in respect of clearing and settlement of contracts in securities.
2. Two copies of the rules, memorandum and articles of association relating in general to the constitution and management of the clearing corporation and two copies of the bye-laws for the clearing and settlement of contracts in securities are enclosed.
3. All the necessary information required in the Annexure to this Form is enclosed. Any additional information will be furnished as and when called for by the Board.
4. We/I, on behalf of the said clearing corporation, hereby undertake to comply with the requirements of section 4 of the said Act and such other conditions and terms as may be contained in the certificate of recognition or be provided or imposed subsequently.
5. Demand Draft No.....dated.....drawn in favour of Securities and Exchange Board of India for ₹ .....towards payment of fees as specified in regulation 5/ regulation 12 of the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2012, is attached.

Yours faithfully,

Authorised signatory

## ANNEXURE TO FORM 'A'

### *Part I – General*

1. Name of the applicant clearing corporation.
2. Address.
3. Date of establishment or incorporation of a clearing corporation.
4. Is your clearing corporation a joint stock company (state whether public or private) registered under the Companies Act?
5. Give details of your capital structure and attach three copies of the audited balance sheets and profit and loss account of the clearing corporation for the preceding three years.
6. Give details of shareholding pattern of the clearing corporation.
7. Has your business viability plan been appraised by a reputed agency having expertise in securities market for its viability? Give a copy of the appraisal report.
8. Have you entered into an agreement with recognised stock exchange(s) for clearing and settling its trades? Give the name of such stock exchange(s) and details of its organisation and management.

### *Part II – Clearing membership of clearing corporation.*

9. State the number of clearing members at the time of application. Also specify how many are inactive.
10. State whether there is any provision, resolution or convention for limiting the number of clearing members and whether in pursuance thereof you have fixed a ceiling on the number of clearing members that you would admit.
11. Do you insist on any minimum qualifications and experience before enrolling new clearing members? If so, give details.
12. State the different classes of clearing members, if any, the number thereof and the privileges enjoyed by each class. What is the procedure followed by your clearing corporation for the admission of different classes of new clearing members?
13. What are the rates of your annual subscription in respect of the different classes of clearing members?
14. Do you collect any security deposit from your clearing members? If so, give details and also state the manner in which such deposits are utilised and the rate of interest allowed, if any.
15. Do you collect any admission or entrance fees from your clearing members? If so, how much?
16. Do you insist on your clearing members divesting themselves of other activities either as principal or as employee?
17. Give details of the scale of brokerage and other charges, if any, specified by your clearing corporation.
18. Do you prescribe standard form of agreement to be entered with the trading member for engaging the services of your clearing member? Attach two copies of such agreement.
19. What are the measures adopted by you to regulate or prohibit advertising or issuing circulars by your clearing members?
20. Do you require clearing members to supply such information or explanation and to produce such books relating to their business as your governing board may require?

21. Do you undertake periodic inspection of your clearing members? Give details including the number of annual inspections and manpower available for conducting inspection.

### ***Part III – Governing Board***

22. What is the present strength of your governing board? Give details of the constitution, powers of management, election and tenure of office of members of the governing board, and the manner in which its business is transacted.
23. Are any trade or commercial interest represented on your governing board? If so, give details of interests represented.
24. Do you associate members of investors associations with the management of your clearing corporation? If so, state the manner in which it is done.
25. Are there any Government or the Board representatives on your governing board? If so, furnish their names.
26. How many public interest directors are there on the governing board? Furnish their names, qualifications and experience.
27. Do your rules provide for the direct election by clearing members on the Advisory Committee of the governing board? If so, give details of its constitution, tenure, powers and functions.
28. Do you have any provision for the appointment of standing or ad hoc subcommittees of the governing board? If so, furnish details of their composition, appointment, term of office, powers and functions.
29. Give the designations, powers and duties of key management personnel of your clearing corporation. Give details as to the mode of their appointment, tenure of office and remuneration.
30. What are the disciplinary powers with the governing board to enforce due compliance by clearing members of the rules and bye-laws of the clearing corporation and generally to ensure proper standard of business conduct?
31. What provisions have you made for the levy and recovery of fees, fines and penalties?

### ***Part IV – Clearing and Settlement***

32. Describe the clearing and settlement system of the clearing corporation.
33. State the different kinds of products being cleared and settled or proposed to be cleared and settled in your clearing corporation(e.g., equity, equity derivative, currency derivatives, interest rate derivatives, debt instruments, etc.). State the period of delivery, payment and the settlement mechanism in each case.
34. What are the conditions subject to which trades are settled and cleared on your clearing corporation?
35. What are your requirements for admitting derivative transactions for clearing and settlement?
36. Do you have the right to prohibit, withdraw or suspend clearing and settlement of dealings admitted for clearing and settlement? If so, under what circumstances is this right exercised?
37. Give details of the clearing and settlement charges and other charges, if any, levied by your clearing corporation.
38. What provisions have you made for periodical settlement of contracts and differences thereunder, the delivery of, and payment for securities and the passing of delivery orders?

39. How do you fix, alter or postpone the dates of settlement?
40. Do you provide any safeguards for the prevention of market manipulation, especially in the case of physical delivery of shares in the derivative markets and for meeting emergencies in settlement? Give details.
41. Provide a detailed assessment of the measures adopted to address the various risks faced by the clearing corporation in terms of the BIS-IOSCO paper on 'Principles for Financial Market Infrastructures.'
42. Do you publish any statistics in regard to business done on the clearing corporation including the value of Settlement Guarantee Fund and transactions settled through the clearing corporation, if maintained? In particular, have you evolved any machinery for computing the gross and net exposure of the clearing corporation and the value of clearing and settling of different kinds of contracts permitted on your clearing corporation? Give details.
43. (a) Do you have any bye-laws, contravention of which makes a contract void?  
 (b) Do you have necessary infrastructure, margin mechanism and adequate risk management mechanism to ensure market safety and integrity? Give Details  
 (c) Do you undertake any other activity other than clearing and settling? Give Details.  
 (d) What is your net worth? Give Details.  
 (e) Give details of business hours?  
 (f) What are the conditions subject to which dealings are admitted for clearing and settlement?
44. Do you maintain Settlement Guarantee Fund? Give details of the corpus of the settlement guarantee fund, its contribution, circumstances for utilisation, priority of utilisation, etc
45. How do you ensure the adequacy of the Settlement Guarantee Fund? Do you perform stress tests on a periodic basis. Give details and results of the latest stress test.
46. What is the netting procedure adopted by the clearing corporation for determining the obligations of the clearing member?
47. What is your policy in respect of settling trades of shareholder stock exchange and non-shareholder stock exchange?
48. Do you have any provisions for regulating the volume of business and exposure taken by any individual clearing member other than through a system of margins? If so, give details.
49. What provisions have you made for regulating— (a) the entering into contracts, their performance and rescission (b) the consequences of breach, default or insolvency on the part of trading or clearing members whether acting as buyers, sellers or intermediaries?

***Part V – Infrastructure***

50. Do you have any machinery for arbitration of disputes between clearing members and/or between clearing members and their constituents and trading member and clearing member? Give details.
51. Have you established connectivity with the depositories, clearing banks, stock exchange and clearing members? Give details.
52. What is the average load that is being handled by your systems? What is the peak load that can be handled and the extent of scalability of the systems in times of stress?
53. What is your business continuity plan? Give details including details of the disaster recovery site.
54. What are the names, qualifications and expertise of your key management personnel?

**FORM B**

[See regulation 9 and 12]

**The Securities and Exchange Board of India**

No. ....The Securities and Exchange Board of India, having considered the application for grant of recognition/renewal of recognition under regulation 4/regulation 12 of the Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2012 by..... (name and address of clearing corporation) and being satisfied that it would be in the interest of the trade, in the interest of securities market and also in the public interest so to do, hereby grants, in exercise of the powers conferred by section 4 read with sub-section (4) of section 8A of the Securities Contracts (Regulation) Act, 1956, recognition to the said clearing corporation for ..... year/years ending .....20 ..... subject to the conditions stated herein below or as may be prescribed or imposed hereafter.

Seal of the Board

Date:

Place: Mumbai

Signature of Officer

## SCHEDULE – II

### PART - A

[See regulation 26(1)]

#### **Code of conduct for the directors on the governing board**

**i. Meetings and minutes.**

Every director of the recognised stock exchange and recognised clearing corporation shall—

- a) not participate in discussions on any subject matter in which any conflict of interest exists or arises, whether pecuniary or otherwise, and in such cases the same shall be disclosed and recorded in the minutes of the meeting;
- b) not encourage the circulation of agenda papers during the meeting, unless circumstances so require;
- c) offer their comments on the draft minutes and ensure that the same are incorporated in the final minutes;
- d) insist on the minutes of the previous meeting being placed for approval in subsequent meeting;
- e) endeavour to have the date of next meeting fixed at each governing board meeting in consultation with other members of the governing board;
- f) endeavour to ensure that in case all the items of the agenda of a meeting were not covered for want of time, the next meeting is held within fifteen days for considering the remaining items.

**ii. Code of Conduct for the public interest directors.**

- a) In addition to the conditions stated in Para (i) above, public interest directors of the recognised stock exchange or recognised clearing corporation shall, endeavour to attend all the governing board meetings and they shall be liable to vacate office if they remain absent for three consecutive meetings of the governing board or do not attend seventy five per cent. of the total meetings of the governing board in a calendar year.
- b) Public interest directors shall meet separately, at least once in six months to exchange views on critical issues.

**iii. Strategic planning.**

Every director of the recognised stock exchange and recognised clearing corporation shall—

- a) participate in the formulation and execution of strategies in the best interest of the recognised stock exchange or recognised clearing corporation and contribute towards pro-active decision making at the governing board level;
- b) give benefit of their experience and expertise to the recognised stock exchange or recognised clearing corporation and provide assistance in strategic planning and execution of decisions.

**iv. Regulatory compliances.**

Every director of the recognised stock exchange and recognised clearing corporation shall—

- a) endeavour to ensure that the recognised stock exchange or recognised clearing corporation abides by all the provisions of the Securities and Exchange Board of India Act, 1992, Securities Contracts (Regulation) Act, 1956, rules and regulations framed thereunder and the circulars, directions issued by the Board from time to time;
- b) endeavour compliance at all levels so that the regulatory system does not suffer any breaches;
- c) endeavour to ensure that the recognised stock exchange or recognised clearing corporation takes steps commensurate to honour the time limit stipulated by Board for corrective action;
- d) not support any decision in the meeting of the governing board which may adversely affect the interest of investors and shall report forthwith any such decision to the Board.

**v. General responsibility.**

Every director of the recognised stock exchange and recognised clearing corporation shall—

- a) place priority for redressing investor grievances and encouraging fair trade practice so that the recognised stock exchange or recognised clearing corporation becomes an engine for the growth of the securities market;
- b) endeavour to analyse and administer the recognised stock exchange or recognised clearing corporation issues with professional competence, fairness, impartiality, efficiency and effectiveness;
- c) submit the necessary disclosures/statement of holdings/dealings in securities as required by the recognised stock exchange or recognised clearing corporation from time to time as per their Rules or Articles of Association;
- d) unless otherwise required by law, maintain confidentiality and shall not divulge/disclose any information obtained in the discharge of their duty and no such information shall be used for personal gains;
- e) maintain the highest standards of personal integrity, truthfulness, honesty and fortitude in discharge of their duties in order to inspire public confidence and shall not engage in acts discreditable to their responsibilities;
- f) perform their duties in an independent and objective manner and avoid activities that may impair, or may appear to impair, their independence or objectivity or official duties;
- g) perform their duties with a positive attitude and constructively support open communication, creativity, dedication, and compassion;
- h) not engage in any act involving moral turpitude, dishonesty, fraud, deceit, or misrepresentation or any other act prejudicial to the administration of the recognised stock exchange or recognised clearing corporation.

**PART - B**  
[See regulation 26(2)]

**Code of Ethics for directors and key management personnel of stock exchanges or clearing corporations**

The ‘Code of Ethics’ for directors and key management personnel of the recognised stock exchanges or recognised clearing corporations, is aimed at improving the professional and ethical standards in the functioning of recognised stock exchanges or recognised clearing corporations thereby creating better investor confidence in the integrity of the market.

**i. Objectives and underlying principles.**

The Code of Ethics for directors and key management personnel of the recognised stock exchange or recognised clearing corporation seeks to establish a minimum level of business/ professional ethics to be followed by these directors and key management personnel, towards establishing a fair and transparent marketplace. The Code of Ethics is based on the following fundamental principles:

- Fairness and transparency in dealing with matters relating to the stock exchange or clearing corporation and the investors.
- Compliance with all laws/ rules/ regulations laid down by regulatory agencies/ recognised stock exchange/ recognised clearing corporation.
- Exercising due diligence in the performance of duties.
- Avoidance of conflict of interest between self interest of directors/ key management personnel and interests of recognised stock exchange or recognised clearing corporation and investors.

**ii. Ethics committee.**

For overseeing implementation of this Code, an ethics committee shall be constituted by every recognised stock exchange and recognised clearing corporation under the respective governing board.

**iii. General standards.**

- a) Directors and key management personnel shall endeavour to promote greater awareness and understanding of ethical responsibilities.
- b) Directors and key management personnel, in the conduct of their business shall observe high standards of commercial honour and just and equitable principles of trade.
- c) The conduct of directors and key management personnel in business life should be exemplary which will set a standard for other members of the recognised stock exchange or recognised clearing corporation.
- d) Directors and key management personnel shall not use their position to give/get favours to/from the executive or administrative staff of the stock exchange or clearing corporation, technology or service providers and vendors of the recognised stock exchange or clearing corporation, or any listed

company at the recognised stock exchange.

- e) Directors and key management personnel shall not commit any act which will put the reputation of the recognised stock exchange or recognised clearing corporation, in jeopardy.
- f) Directors, committee members and key management personnel of the recognised stock exchange or recognised clearing corporation, should comply with all rules and regulations applicable to the securities market.

**iv. Disclosure of dealings in securities by key management personnel of the stock exchange or clearing corporation.**

- a) Key management personnel of the recognised stock exchange or recognised clearing corporation shall disclose on a periodic basis as determined by the stock exchange or recognised clearing corporation (which could be monthly), all their dealings in securities, directly or indirectly, to the governing board/ ethics committee/ Compliance Officer.
- b) The dealings in securities shall also be subject to trading restrictions for securities about which key management personnel in the recognised stock exchange or recognised clearing corporation may have non-public price sensitive information. Requirement laid down under Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992 may be referred in this regard.
- c) All transactions must be of an investment nature and not speculative in nature. Towards this end, all securities purchased must be held for a minimum period of sixty days before they are sold. However, in specific/exceptional circumstances, sale can be effected anytime by obtaining pre-clearance from the Compliance Officer to waive this condition after recording in writing his satisfaction in this regard.

*Explanation.*—"securities" for the purposes of this Code shall not include mutual fund units.

**v. Disclosure of dealings in securities by directors of the stock exchange or clearing corporation.**

- a) All transactions in securities by the directors and their family shall be disclosed to the governing board of the recognised stock exchange or recognised clearing corporation.
- b) All directors shall also disclose the trading conducted by firms/corporate entities in which they hold twenty per cent. or more beneficial interest or hold a controlling interest, to the Ethics Committee.
- c) Directors who are Govt. of India nominees or nominees of Govt. of India statutory bodies or financial institutions and are governed by their own codes shall be exempt from this requirement.

**vi. Avoidance of conflict of interest.**

- a) No director of the governing board or member of any committee of the recognised stock exchange or recognised clearing corporation shall participate in any decision

making/adjudication in respect of any person /matter in which he is in any way, directly or indirectly, concerned or interested.

- b) Whether there is any conflict of interest or not in a matter, should be decided by the governing board.

**vii. Disclosures of beneficial interest.**

All directors and key management personnel shall disclose to the governing board, upon assuming office and during their tenure in office, whenever the following arises:—

- a) any fiduciary relationship of self and family members and directorship/partnership of self and family members in any trading member or clearing member;
- b) shareholding, in cases where the shareholding of the director, directly or through his family exceeds 5 per cent. in any listed company or in other entities related to the securities markets;
- c) any other business interests.

**viii. Role of the Chairperson and directors in the day to day functioning of the stock exchange or clearing corporation.**

- a) The Chairperson and directors shall not interfere in the day to day functioning of the recognised stock exchange or recognised clearing corporation and shall limit their role to decision making on policy issues and to issues as the governing board may decide.
- b) The Chairperson and directors shall abstain from influencing the employees of the recognised stock exchange or recognised clearing corporation in conducting their day to day activities.
- c) The Chairperson and directors shall not be directly involved in the function of appointment and promotion of employees unless specifically so decided by the governing board.

**ix. Access to information.**

- a) Directors shall call for information only as part of specific committees or as may be authorised by the governing board.
- b) There shall be prescribed channels through which information shall move and further there shall be audit trail of the same. Any retrieval of confidential documents/ information shall be properly recorded.
- c) All such information, especially which is non-public and price sensitive, shall be kept confidential and not be used for any personal consideration/ gain.
- d) Any information relating to the business/operations of the recognised stock exchange or recognised clearing corporation, which may come to the knowledge of directors/ key management personnel during performance of their duties shall be held in strict confidence, shall not be divulged to any third party and shall not be used in any manner except for the performance of their duties.

**x. Misuse of position.**

Directors/ committee members shall not use their position to obtain business or any pecuniary benefit in the organization for themselves or family members.

**xi. Ethics committee to lay down procedures.**

- a) The ethics committee shall lay down procedures for the implementation of the code and prescribe reporting formats for the disclosures required under the code.
- b) The Compliance Officer shall execute the requirements laid down by the ethics committee.

While the objective of this Code is to enhance the level of market integrity and investor confidence, it is emphasized that a written code of ethics may not completely guarantee adherence to high ethical standards. This can be accomplished only if directors and key management personnel of the recognised stock exchange or recognised clearing corporation commit themselves to the task of enhancing the fairness and integrity of the system in letter and spirit.

## **PART – C**

[See regulation 28]

### **Measures to ensure segregation of regulatory departments**

In order to ensure the segregation of regulatory departments, every recognised stock exchange and recognised clearing corporation shall adopt a "Chinese Wall" policy which separates the regulatory departments of the recognised stock exchange or recognised clearing corporation from the other departments. The employees in the regulatory departments shall not communicate any information concerning regulatory activity to any one in other departments. The employees in regulatory areas may be physically segregated from employees in other departments including with respect to access controls. In exceptional circumstances employees from other departments may be given confidential information on "need to know" basis, under intimation to the Compliance Officer.